

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06

CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 /102 W

----- 017973

R 042229Z MAR 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 5807

UNCLAS OTTAWA 786

POUCHED FOR INFO TO ALL CONSULS IN CANADA

EO 11652 NA

TAGS ECON CA

SUBJ CANADA'S 1974 GNP--PRELIMINARY ESTIMATES

1. SUMMARY. LATEST FIGURES RELEASED BY STATISTICS CANADA SHOWED MARKED DETERIORATION IN STATE OF CANADA'S ECONOMY WITH REAL GNP DECLINING BY 1.3 PERCENT IN FOURTH QUARTER OF 1974. MAJOR FACTORS CONTRIBUTING TO DECLINE WERE RECORD TRADE DEFICIT, DEPRESSED HOUSING CONSTRUCTION AND SLOWDOWN IN CONSUMER SPENDING, ESPECIALLY FOR DURABLES. BRIGHT SPOTS IN THE ECONOMY WERE SLOWDOWN IN RATE OF INFLATION AND INCREASE IN BUSINESS GROSS FIXED CAPITAL FORMATION. FOR 1974 GNP ROSE BY 17.3 PERCENT BUT REAL GROWTH WAS UP ONLY 3.7 PERCENT. SOME ANALYSTS HAD BEEN PREDICTING NO REAL GROWTH OR MINUS GROWTH FOR FIRST SIX MONTHS OF 1975, AND THIS STATCAN ANNOUNCEMENT WOULD REINFORCE THIS FORECAST. END SUMMARY.

2. STATCAN RELEASED ON MARCH 4 PRELIMINARY ESTIMATES OF CANADA'S GNP FOR YEAR AND FOURTH QUARTER OF 1974. GNP, SEASONALLY ADJUSTED AT ANNUAL RATES, FOR FOURTH QUARTER WAS C\$144,120 MILLION, AN INCREASE OF 0.7 PERCENT OVER THIRD QUARTER AND FOR YEAR WAS C\$139,493 MILLION, AN INCREASE OF 17.3 PERCENT OVER 1973 GNP OF C\$118,902 MILLION. 1974 GNP BY QUARTERS WAS (IN MILLION CANADIAN UNCLASSIFIED

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DOLLARS) \$132,936; \$137,808; \$143,108; AND \$144,120, RESPECTIVELY.

3. GNP IN CONSTANT (1961) DOLLARS DECREASED IN FOURTH QUARTER BY 1.3 PERCENT, WHICH, ACCORDING TO STATCAN, WAS "FIRST QUARTERLY DECLINE OF SUCH MAGNITUDE SINCE THE RECESSION OF 1960-61". REAL GNP ANNUALIZED BY QUARTERS WAS (IN MILLIONS 1961 CANADIAN DOLLARS) \$79,528; \$79,420; \$79,432; AND \$78,461, RESPECTIVELY, AND FOR YEAR WAS \$79,199 (OR 3.7 PERCENT HIGHER THAN 1973 REAL GNP OF \$76,345).

4. STATCAN ANNOUNCED THAT MAJOR FACTORS AFFECTING ECONOMY IN FOURTH QUARTER WERE: 1) SLOWER RATE OF GROWTH IN LABOR INCOME (3PERCENT), 2) FIRST DECLINE IN CORPORATION PROFITS IN FOUR YEARS (MINUS 7.9PERCENT), 3) RECORD TRADE DEFICIT (C\$5,116 MILLION SEASONALLY ADJUSTED AT ANNUAL RATE), AND 4) NOTICEABLE SLOWDOWN IN GROWTH OF CONSUMER EXPENDITURES (FROM SEASONALLY ADJUSTED C\$81,468 MILLION IN THIRD QUARTER TO C\$82,824 MILLION IN FOURTH QUARTER).

5. ANNOUNCEMENT POINTED OUT THAT "ONLY MAJOR COMPONENT OF REAL GROSS NATIONAL EXPENDITURE (GNE) SHOWING ANY STRENGTH IN FOURTH QUARTER WAS INVESTMENT IN BUSINESS PLANT AND EQUIPMENT. NON-RESIDENTIAL CONSTRUCTION ROSE BY 4.8 PERCENT, AND INVESTMENT IN MACHINERY AND EQUIPMENT INCREASED BY 1.1 PERCENT. REAL CONSUMER SPENDING WAS DOWN 1.9 PERCENT, LED BY DURABLES WHICH FELL OFF BY 10.2 PERCENT...EXPENDITURES ON RESIDENTIAL CONSTRUCTION WERE DOWN 10.4 PERCENT FOR THE SECOND CONSECUTIVE QUARTER. REAL EXPORTS WERE 3.7 PERCENT LOWER THAN IN THE THIRD QUARTER WHILE IMPORTS SHOWED VIRTUALLY NO CHANGE".

6. PRICE PRESSURES ABATED DURING FOURTH QUARTER AS IMPLICIT PRICE INDEX FOR GNE DECELERATED FROM AVERAGE RATE OF ABOUT 3.8 PERCENT IN FIRST THREE QUARTERS OF 1974 TO RATE OF 2.0 PERCENT IN FOURTH QUARTER. HOWEVER, FOR YEAR IMPLICIT PRICE INDEX FOR GNE ROSE BY 13.5 PERCENT AS OPPOSED TO INCREASED OF 7.6 PERCENT IN 1973. (STATCAN SAID THAT "1974 INCREASE IS THE LARGEST ON RECORD, OUT-RANKING THAT OF 1951, WHEN PRESSURES ASSOCIATED WITH THE KOREAN WAR SENT THE INDEX UP 11.5 PERCENT AND THAT OF 1948 WHEN PRICES ROSE BY 12.2 PERCENT").

7. OTHER INCOME AND EXPENDITURE COMPONENTS SHOWING LARGE INCREASES OVER 1973 WERE: LABOR INCOME (16.8 PERCENT), CORPORATION PROFITS UNCLASSIFIED

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(28.4 PERCENT), INTEREST AND MISCELLANEOUS INVESTMENT INCOME (40.6 PERCENT), FARM INCOME (18.1 PERCENT), GOVERNMENT EXPENDITURES ON GOODS AND SERVICES (19.1 PERCENT), BUSINESS INVESTMENT IN PLANT AND EQUIPMENT (23.3 PERCENT), EXPORTS OF GOODS AND SERVICES (25.5 PERCENT), AND IMPORTS OF GOODS AND SERVICES (30.3 PERCENT). STATCAN SAID TRADE DEFICIT FOR 1974 OF C\$2,485 MILLION WAS "LARGEST ON RECORD", UP C\$785 MILLION FROM 1973.

8. EXPORT PRICES ROSE BY ALMOST 27 PERCENT IN 1974 AND IMPORT PRICES BY 19 PERCENT. CONSTANT DOLLAR (1961) EXPORTS DECLINED BY 1.1 PERCENT WHILE IMPORTS INCREASED BY 9.4 PERCENT.

9. REAL GROSS FIXED CAPITAL INVESTMENT WAS MAINSTAY OF CANADIAN ECONOMY IN 1974 DESPITE DECELERATION OF RATE IN INVESTMENT IN RESIDENTIAL CONSTRUCTION. IN CONSTANT DOLLARS BUSINESS GROSS FIXED CAPITAL FORMATION WAS UP 6.9 PERCENT, LED BY MACHINERY AND EQUIPMENT WHICH INCREASED BY 10 PERCENT.

10. WAGES AND SALARIES IN SERVICE-PRODUCING INDUSTRIES ROSE BY 17.9 PERCENT IN 1974, AND "LARGE RETROACTIVE PAYMENTS AND COST-OF-LIVING ALLOWANCES PARTICULARLY AFFECTED THE RATES OF INCREASE IN TRANSPORTATION, COMMUNICATIONS, AND OTHER UTILITIES (UP 18.1 PERCENT) SERVICE (UP 17 PERCENT), AND PUBLIC ADMINISTRATION (UP 19.1 PERCENT) INDUSTRIES." LABOR INCOME INCREASED BY 16.8 PERCENT IN 1974, "THE LARGEST ANNUAL RATE OF GROWTH SINCE 1951, AND COMPARED WITH AN INCREASE OF 12.5 PERCENT IN 1973. THE ACCELERATION RESULTED LARGELY FROM INCREASES IN AVERAGE EARNINGS".

11. IN INTRODUCTORY STATEMENT ON CANADIAN ECONOMY IN 1974, STATCAN SAID THAT "QUARTERLY CHANGES IN ECONOMIC ACTIVITY THROUGHOUT THE YEAR, CULMINATING IN NEGATIVE GROWTH IN FOURTH QUARTER, DISPLAYED A PATTERN OF WEAKNESS RESEMBLING THAT EXPERIENCED IN THE UNITED STATES ABOUT ONE YEAR EARLIER. AFTER A STRONG FIRST QUARTER, AND NO GROWTH IN THE SECOND AND THIRD, THE CANADIAN ECONOMY WAS OPERATING IN THE FOURTH QUARTER OF 1974 AT ABOUT THE SAME LEVEL AS IN THE FOURTH QUARTER OF 1973. FOR THE YEAR AS A WHOLE, THE ECONOMY GREW BY 3.7 PERCENT IN REAL TERMS, A MARKED DETERIORATION FROM THE GROWTH RATES OF THE PREVIOUS THREE YEARS.

12. COMMENT: LATES INFORMATION ON STATE OF CANADIAN ECONOMY IS NOT ENCOURAGING, BUT TAX CUTS AND OTHER MEASURES TO STIMULATE ECONOMY UNCLASSIFIED

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PROPOSED IN NOVEMBER BUDGET OF FINMIN TURNER HAVE NOT YET BEEN FULLY IMPLEMENTED. TAX BILL JUST PASSED COMMONS LAST WEEK AND SHOULD BECOME LAW SHORTLY, THUS PROVIDING SOME STIMULATION FOR CONSUMER SPENDING IN WEEKS AHEAD AS TAXPAYERS RECEIVE REBATES.

13. RECENT STATCAN STATISTICS BEAR OUR PROJECTIONS OF CONFERENCE BOARD WHICH LAST SEPTEMBER PREDICTED ECONOMY WAS HEADING INTO RECESSION AND WHICH WAS CRITICIZED BY GOC OFFICIALS FOR BEING OVERLY PESSIMISTIC.

14. IT WOULD BE PREMATURE FOR EMBASSY TO FORECAST TURNAROUND IN ECONOMY, BUT CANADIAN BUSINESSMEN APPEAR CONFIDENT THAT CONDITIONS WILL IMPROVE AFTER MID-YEAR. FINANCIAL TIMES FEBRUARY SURVEY OF BUSINESS OPINION SHOWS MARKED INCREASE IN BUSINESSMEN'S OPTIMISM WITH MAJORITY PREDICTING BETTER BUSINESS CONDITIONS IN NEXT SIX

MONTHS (55 PERCENT OF THOSE POLLED IN FEBRUARY AS OPPOSED TO ONLY
25 PERCENT IN DECEMBER).
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GNP, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 04 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OTTAWA00786
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750076-0461
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750384/aaaacyab.tel
Line Count: 172
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 06 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 JUN 2003 by SilvaL0>; APPROVED <23 FEB 2004 by CollinP0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CANADA'S 1974 GNP--PRELIMINARY ESTIMATES
TAGS: ECON, CA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006